



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2011 Biennium

Bill #	HB0033	Title:	Redefine compensation for Firefighters Unified Retirement System
Primary Sponsor:	Wilmer, Franke	Status:	As Introduced

Retirement Systems Affected:

<input type="checkbox"/> Teachers	<input type="checkbox"/> Public Employees	<input type="checkbox"/> Highway Patrol	<input type="checkbox"/> Police
<input type="checkbox"/> Sheriffs	<input checked="" type="checkbox"/> Firefighters	<input type="checkbox"/> Volunteer Firefighters	<input type="checkbox"/> Game Wardens
		<input type="checkbox"/> Judges	

Check the box if "Yes".

- ☒ Has this legislation been reviewed by the legislative interim committee?
- ☒ Has the cost of this legislation been calculated by the system's actuary?
- ☐ Does this legislation include full funding for any benefit revisions?

	July 1, 2008 Current System	July 1, 2008 With Changes	Increase/ (Decrease)
Present Value of Actuarial Liability	\$287,218,000	\$294,674,000	\$7,456,000
Present Value of Actuarial Assets	\$206,127,000	\$206,127,000	\$0
Present Value of Increased Costs	\$0	\$0	\$0
Actuarial Accrued Liability (AAL) Unfunded/(Funded)	\$81,091,000	\$88,547,000	\$7,456,000
Amortization Period of AAL	11.3	11.5	0.2

	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate hired prior to 7/1/97 and not electing GABA	9.50%	9.50%	9.50%	9.50%	9.50%
Employee Contribution Rate hired after 6/30/97 and those electing GABA	10.70%	10.70%	10.70%	10.70%	10.70%
Employer Contribution Rate	14.36%	14.36%	14.36%	14.36%	14.36%
State Contribution Rate	32.61%	32.61%	32.61%	32.61%	32.61%
TOTAL Contribution Rate	57.67%	57.67%	57.67%	57.67%	57.67%

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	\$599,745	\$625,234	\$651,806	\$679,508
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other - Pension Fund (FURS)	\$1,060,634	\$1,105,711	\$1,152,704	\$1,201,693
Net Impact-General Fund Balance:	<u><u>(\$599,745)</u></u>	<u><u>(\$625,234)</u></u>	<u><u>(\$651,806)</u></u>	<u><u>(\$679,508)</u></u>

Description of fiscal impact:

HB33 changes the definition of compensation from salary and vacation leave to also include overtime. This increases the amount of retirement contribution paid by the member, the employer, and the state because it increases the amount of compensation. Another result of this change is the increase of the highest average compensation (HAC) for members, thereby increasing the final retirement benefit.

FISCAL ANALYSIS

Assumptions:

1. The bill requires the inclusion of overtime payments in the definition of compensation for benefits calculated on or after July 1, 2009.
2. This is the only statutory amendment being considered. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different.
3. Overtime pay in aggregate was requested of each City/Town for calendar year 2007. The average overtime increase was 6.9%.
4. Individual member's 2007-2008 pension compensation was grossed up for overtime based on the member's City/Town's average increase.
5. No adjustments have been made for actuarial gains or losses that may have emerged since the last valuation date, June 30, 2008 except as those reported in the technical notes of this fiscal note.
6. The actuary's General Wage Growth assumption of 4.25% has been used.
7. State, employer, and member contributions would increase due to the increased compensation effective July 1, 2009.
8. Retirements would increase effective July 1, 2009 but HAC would only include overtime since the same date. HAC could be a combination of data where overtime was included and not included.
9. The total overtime amount paid in 2007 from the information obtained from the employers was \$1,623,257.
10. The projected overtime compensation for FY 2009 would be \$1,839,143.
11. FY 2010 payment from the general fund would be \$599,745 (\$1,839,143*32.61%).
12. FY 2010 payment from the employers would be \$264,101 (\$1,839,143*14.36%).
13. The calculations are repeated for FY 2011, FY 2012, and FY 2013.
14. The increased revenue to the pension includes state, employer, and employee contributions.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Local Assistance	\$599,745	\$625,234	\$651,806	\$679,508
TOTAL Expenditures	\$599,745	\$625,234	\$651,806	\$679,508
<u>Funding of Expenditures:</u>				
General Fund (01)	\$599,745	\$625,234	\$651,806	\$679,508
TOTAL Funding of Exp.	\$599,745	\$625,234	\$651,806	\$679,508
<u>Revenues:</u>				
Other - Pension Funds (FURS)	\$1,060,634	\$1,105,711	\$1,152,704	\$1,201,693
TOTAL Revenues	\$1,060,634	\$1,105,711	\$1,152,704	\$1,201,693
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$599,745)	(\$625,234)	(\$651,806)	(\$679,508)
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other	\$1,060,634	\$1,105,711	\$1,152,704	\$1,201,693

Effect on Local Governments:

- Local Governments will be required to pay more in contributions due to increased compensation.

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
FURS	\$264,101	\$275,325	\$287,027	\$299,225

Technical Notes:

- For HB33,
 - the amortization period increases by 0.2 years;
 - the normal cost increases by 0.01%.
- There is a potential for leapfrogging and salary spiking.
- Based on the June 30, 2008 market value of assets (instead of actuarial value of assets), the amortization period would be 13.4 years instead of 11.5 years for results with changes.
- If the assets were adjusted at June 30, 2008 to reflect the market losses through October 31, 2008, the amortization period would be 13.2 years on an actuarial value of assets basis, and 21.5 years on a market value of assets basis.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date